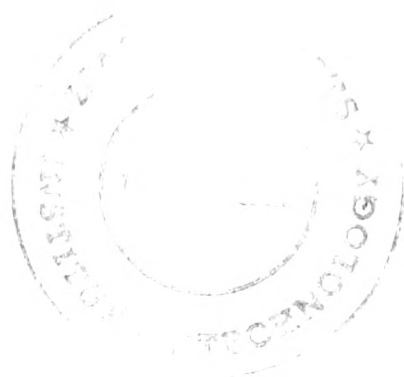


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COMMENTS FOR THE IRFA SESSION  
ON  
EMPLOYMENT SECURITY

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## Comments for the IRRA session on Employment Security

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Employment security is one of those concepts that sounds good until it has to be utilized. When workers feel the need for employment security, the circumstances are such that it is most difficult for an employer to provide this kind of assurance. The reverse is also true -- during most of the 1950s, 1960s and even into the 1970s not much attention was given to the subject, precisely because the economy was growing and involuntary separation on any kind of large scale was not present.

Another way to make the point is that employment security always presents a difficult tradeoff between the need or desirability for realizing this objective and the feasibility or practicality of providing it. The two papers that discuss the concept of employment security at the firm level, those by Fisher/Friedmann and Foulkes attest to the premise that it is possible for the parties to handle this tradeoff in a creative fashion.

Let me first comment on the unionized sector that has been well analyzed by Fisher/Friedmann. Touching first on the desirability side of employment security, it is clear that today workers place a very high priority on this goal. Also, companies realize that without some provision governing employment security it will be difficult to achieve the restructuring that is essential for dealing with competitive pressures.



Turning to the feasibility side, in many situations today it is possible to provide employment security because the workforce has been reduced to the point where any large additional reductions would be unlikely and hence a platform has developed for the provision of employment security.

With respect to the creative contributions of the parties in the unionized sector, let me offer several perspectives. As Fisher and Friedmann note, when a firm commits to employment security it is committing to the career enhancement of its workforce. This means that there will be much more training and much more preparation of workers for new technologies and organizational arrangements. The out look becomes much longer term, close to what we associate with the Japanese approach to workforce management. Osterman has used the concept of the salary system in his book on "Employment Futures"<sup>1</sup> as another way to capture the essence of a system that is looking at the human resource as a key attribute of the firm over a long term period.

The second point is that in many of the unionized firms employment security plays a key role in the evolution of a new system of industrial relations that is characterized by flexible work systems, mutual commitment and other practices that are associated with high performance systems. A distinctive attribute is increased access by unions to business decisions, especially those that affect the ability of the firm to deliver employment security over the long run. Thus, decisions to outsource, decisions regarding new products and new plants take on increased saliency once employment security is embraced as a mutual goal.



Turning to the Foulkes paper, we see here an enumeration of the many positive practices that large non-union firms use to deliver employment security. Looking at the story from the desirability side I can attest (based on my own research<sup>2</sup>) to the benefits that accrue to a firm when it is in a position to offer employment security. In examining how IBM redeployed approximately 1000 workers at its plant in Burlington, Vermont, I was amazed at the willingness of substantial numbers of the workforce to respond to the company's statement that it had the need to rebalance the workforce, specifically, to take transfer to the west coast and to shift from indirect work to direct work in manufacturing.

As Foulkes has demonstrated through his research over the past several decades a number of large firms have used employment security as a corner stone for their positive personnel program.<sup>3</sup> What I find especially significant is the point of view that Foulkes takes toward the end of his paper about the costs that are inherent in a comprehensive program of employment security. In fact, the last sentence of the Foulkes piece states: "The direct and indirect costs of the full employment policies and practices are certainly substantial". A number of large companies that have historically followed a practice of employment security are working very hard today to deliver employment security in the face of substantial restructuring -- but at the same these firms are transmitting a message to their workforce that employment security is not something that can be guaranteed -- rather it must be grounded on the viability of the business.



In a very real sense we can observe convergence between the practices of non-union and union firms. Most of the employment security programs that have been prominent over the past 3 or 4 decades occurred in large non-union firms. In fact, Foulkes devotes a full chapter in his classic book to understanding this key component.<sup>4</sup> However, recently a number of firms have had to abandon employment security, what Foulkes terms "fallen angels". On the other side of the ledger historically unionized firms never addressed employment security directly -- the mechanism for the management of the internal workforce was layoff followed by recall (usually all of the workers). However over their past decade more and more unionized firms have made employment security a very explicit objective. Given these opposite trends, large firms that practice employment security cannot be distinguished by their non-union or union status.

In the light of this convergence a number of key principles have emerged with respect to employment security.

- 1) Workers should not be hurt by decisions that an employer can control. This is where the UAW has pioneered with its contracts in the automobile industry. Essentially the job bank and employment level concepts mean that workers will not be laid off when a firm chooses to subcontract, to bring in new technology or to initiate other changes in the operations of the business that affect employment levels. Of course no company can guarantee against a drop in demand or a loss of market share, but it can phase in changes that it controls.





2) Workers who are at risk should be given an opportunity to influence strategic decisions of the business. The best example I have here is what has developed between Xerox and the Amalgamated Clothing and Textile Workers Union. Before work is moved out of a department the workers in that department are given a chance to study the situation and make proposals with a view that the work can be retained in house.<sup>5</sup>

3) If workers are to be displaced the ultimate test must be one of fairness. I chaired the New York State Continuity of Employment Committee and we developed the principle of the "reasonable alternative". A worker before being involuntarily laid off would be offered an alternative to remain with the state.<sup>6</sup>

4) Finally, before a worker is laid off a firm should accept some responsibility for helping the worker return in a state of readiness. This may mean training, counseling and financial benefits to tide the worker over the transition period.

Turning now to the labor market level, and this brings me to the excellent paper by Dan Turillo, we can start with the useful definition of employment security that has been offered by Mac Lovell: "An economic state wherein an individual worker is able to have continuity of work opportunity throughout the career that he wishes to be employed".<sup>7</sup>

Some comments are in order about the four major segments of the labor market for which the attainment of employment security is a very challenging task. Considerable attention has been focused on new entrants and the inadequacy of our educational system to prepare young people for the requirements of



employment in today's society. We know that programs like Head Start make a difference and a number of business groups, such as CED, have committed themselves to helping with the improvement of the quality of elementary education. A special challenge is how to facilitate the transition from school to work when most of the job openings are in the service sector and in small firms. We do not know yet how to put together the institutions that will help with the required programs of remediation and adjustment to employment.

A second target group has been called the disadvantaged workers, individuals who have never broken into the main stream and remain at the periphery of the labor market. It is clear that the Job Corps works but at a price tag of \$15,000 per placement the resources are not available to deal with the millions of individuals who fall into this category. Reports also suggest that JTPA is only serving a small fraction of the workers who are truly disadvantaged.

The largest segment of all is the current workforce that needs to be upgraded to cope with new technology and new work systems. The private sector spends approximately \$40 billion/year on training and we know very little about what works and what does not work.

The final category has received considerable attention over the past decade, the displaced, approximately 2 million workers per year. Taken together the Trade Act and JTPA provide about \$1 billion for helping workers who are the casualties of restructuring.



Clearly, many challenges and unanswered questions exist and we do not have a clear way of putting all of the pieces together. Let me offer several perspectives.

First, we have been living in a world of sustained job growth and it has been possible for most workers to find employment of some sort. If we should experience some type of severe recession, then the task of achieving employment security will become even more challenging.

Second, the implied social contract between firms and workers, especially those with long service is being rewritten in the light of changing economic circumstances. The fact that firms are offering early retirement incentives and a variety of inducements to thin out the number of long service workers means that the basic notion of career employment and indeed employment security is changing in very fundamental ways.

Third, in any policy prescriptions concerning the operation of the labor market we need to be alert that those on the inside of the system are not being protected at the expense of those on the outside, the new entrants and the disadvantaged.

Finally, we need to learn much more about what works. In her presidential address, Phyllis Wallace has proposed the creation by the IRRA of a research center for understanding and disseminating knowledge about the important subject of training. The federal government is in an ideal position to involve itself with the sponsorship of an independent center. The Bureau of Labor Management Cooperation has pioneered in the dissemination of information about what is working with respect to new patterns of labor-management relations. Similarly, the



Employment and Training Administration of DOL could spearhead a similar program of research and dissemination of information with respect to what works in achieving employment security at both the firm and labor market levels.

A question that needs to be asked is whether public policy should mandate some form of employment security. This suggestion has been advanced in the paper by Fisher and Friedmann. It is true that firms in the United States tend to be preoccupied with short run considerations. And we have seen in cases where unions have negotiated employment security and where non-union firms have embraced the concept as part of comprehensive personnel policies that good things happen and the orientation of the firm becomes much longer run. But can employment security be legislated? I do not think so. Certainly, smaller steps can be taken such as recently has happened with respect to notice and the provision of information and the financing of training by the government.

Dan Turillo has advanced the concept of government in an entrepreneurial role and I fully subscribe to this creative function for government in making the labor market work more effectively and providing the right incentives for individual firms.

The subject of employment security continues to unfold and is becoming increasingly important with the current focus on the feasibility side of how to deliver it via training and the help of labor market institutions. The business community is clearly engaged. The plethora of studies over the past year





attests to the awareness that has developed on the part of the business community to the importance of making it possible for all members of the workforce to enjoy continued employment and earnings. And unions are becoming more and more involved, especially at the firm level.

Clearly, the agenda for the future is to develop the partnerships of government, business and labor with the spirit of innovation and entrepreneurship that members of this panel have called for so eloquently.



1 Osterman, Paul. Employment Futures. New York: Oxford University Press, 1988.

2 Greenhalgh, Leonard, Robert McKersie and Roderick Gilkey, "Rebalancing the Workforce at IBM." Organizational Dynamics Vol 14, #4, (Spring 1986), pp. 30-47.

3 Foulkes, Fred. Personnel Policies of Large Nonunion Companies. Englewood Cliffs, NJ: Prentice-Hall, 1979.

4 Ibid.

5 Cutcher-Gershenfeld, Joel. Tracing a Transformation in Industrial Relations. U.S. Department of Labor. BLMR123.

6 Greenhalgh, Leonard and Robert McKersie. "Cost-Effectiveness of Alternative Strategies for Cutback Management" in Crisis and Constraint in Municipal Finance. ed. James Carr. New Brunswick: Rutgers, 1984.

7 Presented at the International Industrial Relations Conference, Quebec, Canada, August 1988.















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